



The Global Center on Private Financing of Higher Education

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An Overview of Private Financing of Higher Education

Outline

- **The Global Rise of Private Finance**
- Private Student Loans in the United States
- Recent Developments in Student Loans Around the World

Definition of private finance

- *First Tier*. Market-like instruments funded by the state
 - E.g. vouchers, competitive funding
- *Second Tier*. Cost-sharing
 - E.g. tuition, consultancies, etc.
- *Third Tier*. Mechanisms that facilitate cost-sharing
 - E.g. securitization, public-private partnerships

Increasing Demand for Higher Education

- Growing private returns
- Government focus on meeting labor force needs through more relevant curricula
- Increased enrollment and graduation rates at the secondary level
- New modes of institutional governance

Government Funding

- Governments are attempting to reform higher education for a variety of reasons such as global competitiveness, linguistic and cultural preservation, and other factors
- But funding is limited due to competing demands from other sectors: agriculture, housing, transportation, and health care



Responses to the Disconnect Between Supply and Demand

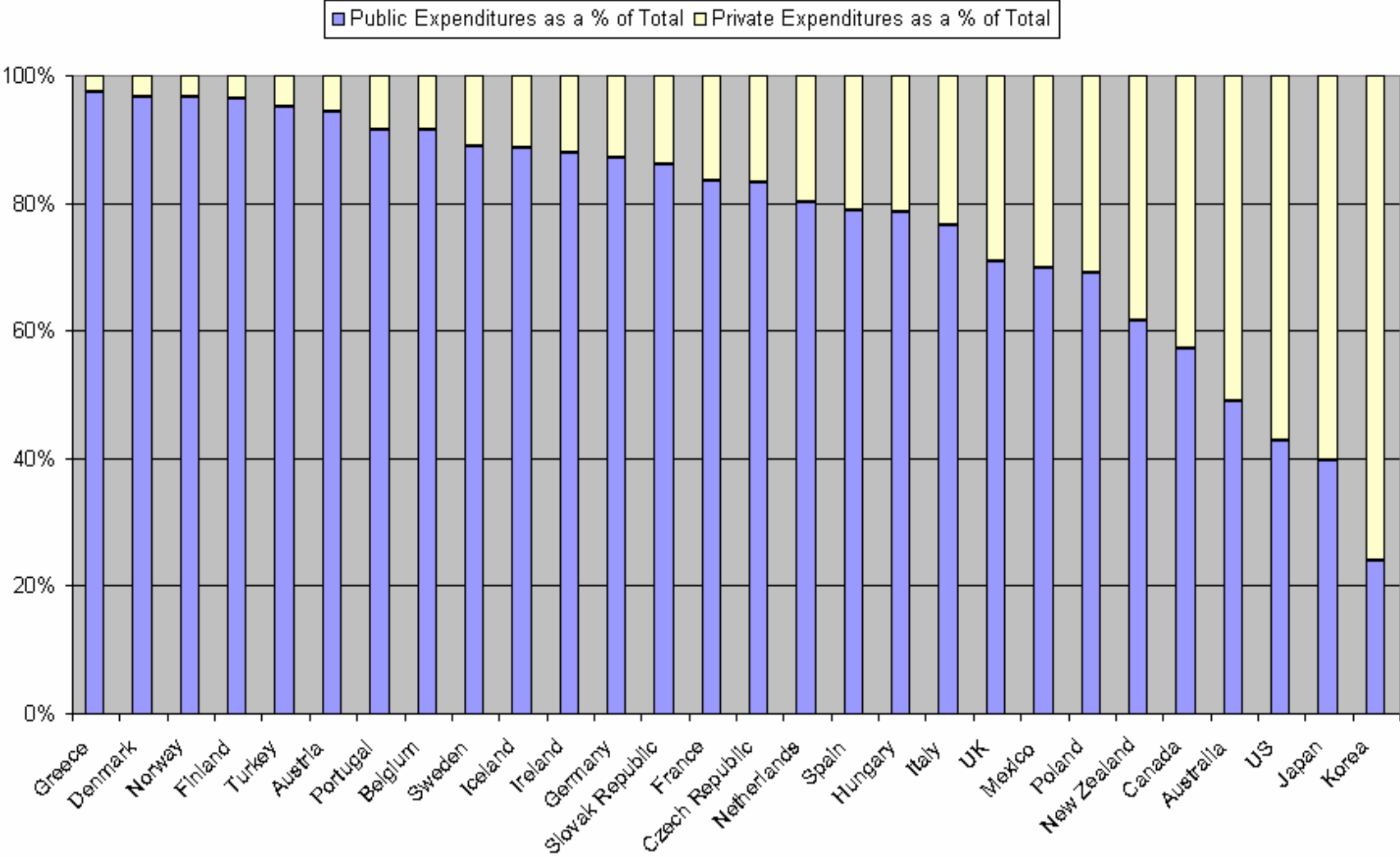
- Most common responses have been:
 - 1) Cost-sharing through tuition or other fees
 - 2) Commercialization of research and facilities
 - 3) Public-Private Partnerships
- Most effort has been exerted on #1, but significant potential exists for #2 and #3



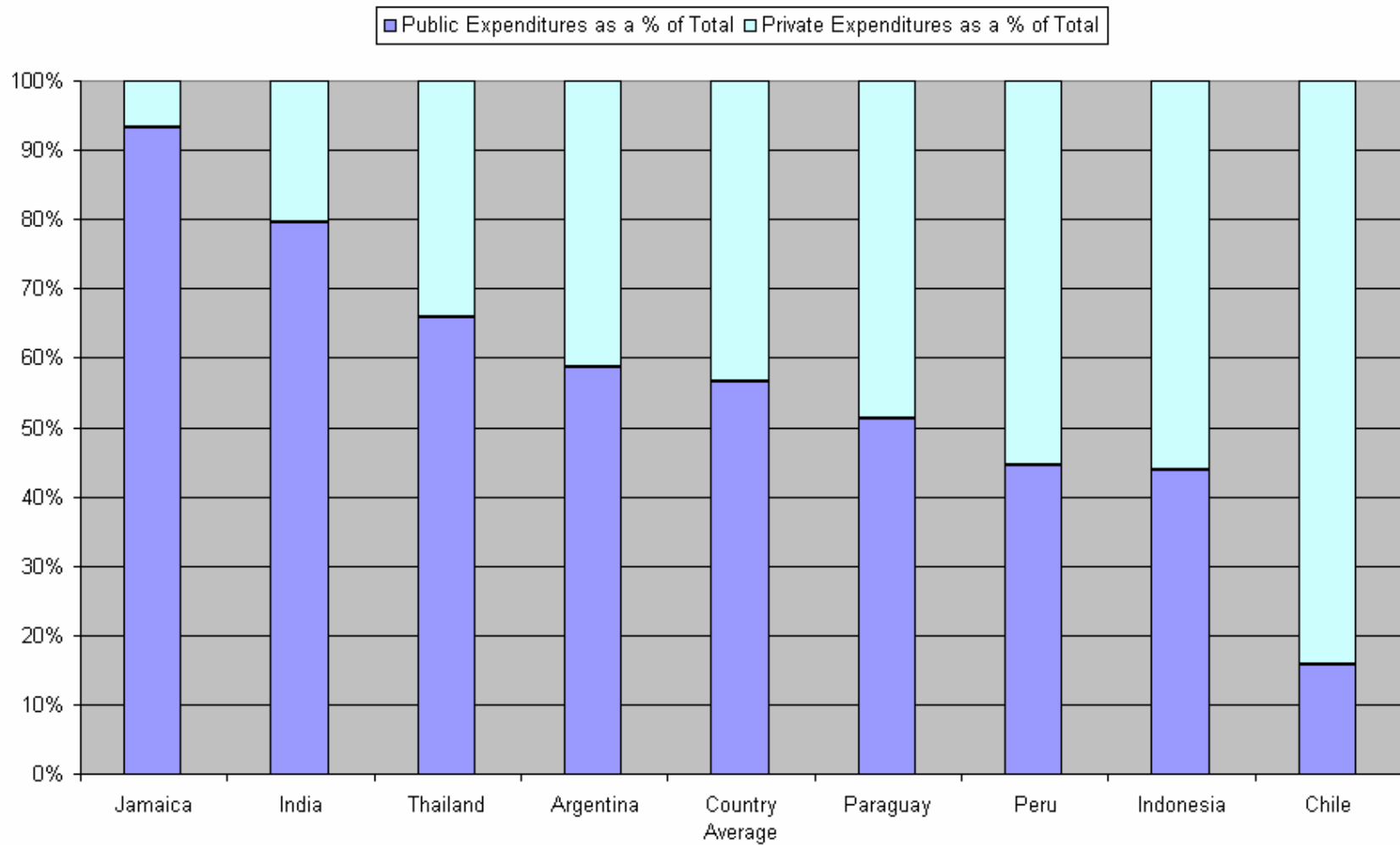
Private finance contributes about 1/5th of total expenditures in the OECD countries


- Based on self-reported data for 2003
- Many problems of comparability
- Unweighted calculation

Public and Private Expenditures on Higher Education as a Percentage of Total Expenditures on Higher Education in the OECD Countries, 2003



Public and Private Expenditures on Higher Education as a Percentage of Total Expenditures on Higher Education in Selected Middle-Income Countries, 2003





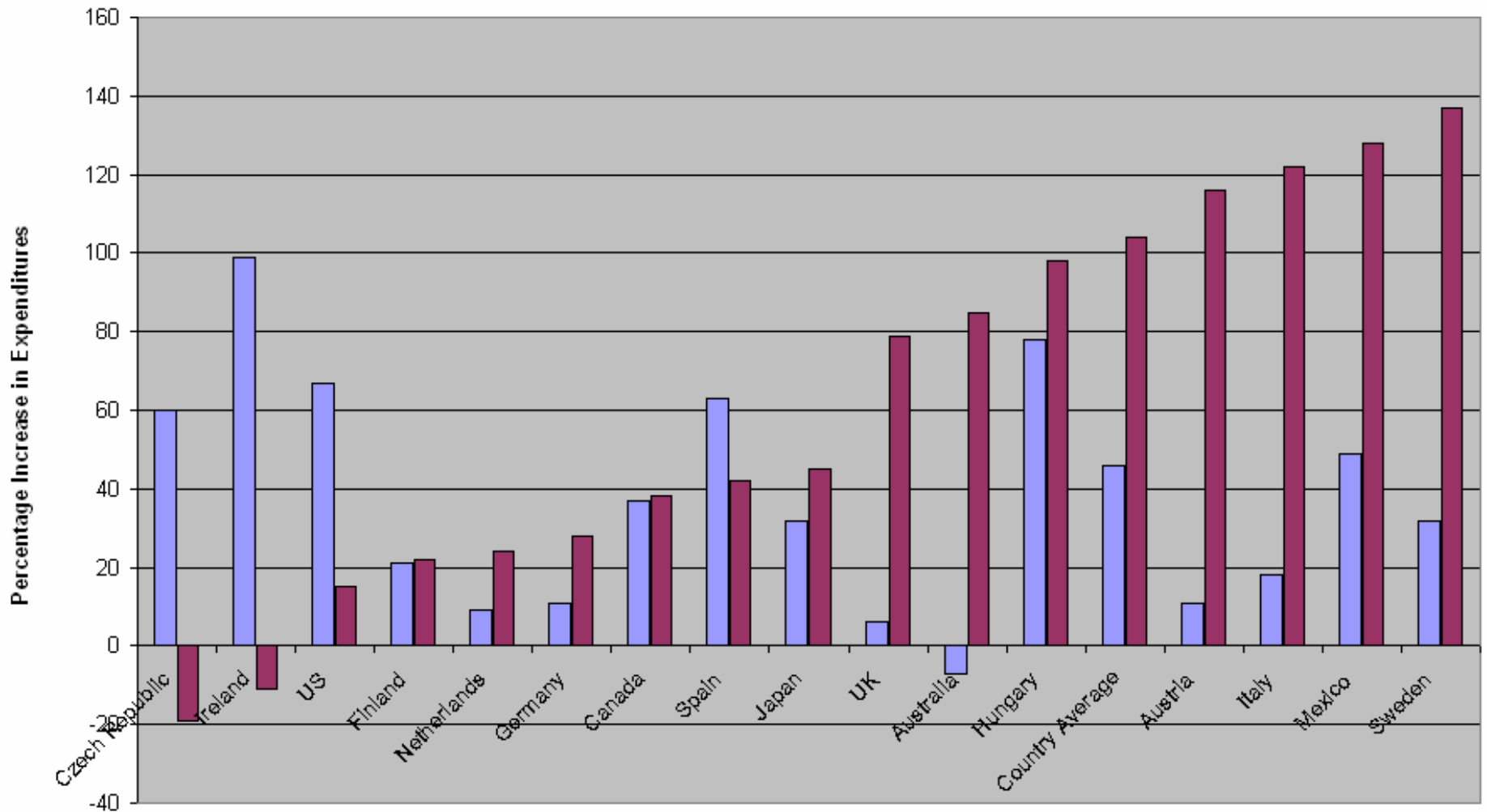
Private finance has grown quickly in the recent past, doubling between 1995 and 2003


However, according to the OECD:

“It is notable that rises in private education expenditure have not generally gone hand in hand with cuts (in real terms) in public expenditure on education at the tertiary level.”

Real Growth in Public and Private Expenditures on Higher Education in Selected OECD Countries, 1995-2003


Percentage Increase in Public Expenditures Percentage Increase in Private Expenditures





Tuition has been introduced or increased in the recent past in many countries around the world

- *United Kingdom*: Introduced £1,000 tuition in 1998-1999 academic year
- *Australia*: Introduced the Higher Education Contribution Scheme in 1989-1990
- *China*: Introduction of tuition in 1989
- *Indonesia*: Legislation passed in 1998 that gave some universities the right to set their own tuition
- **Contrary Examples:**
 - France, Ireland, Israel



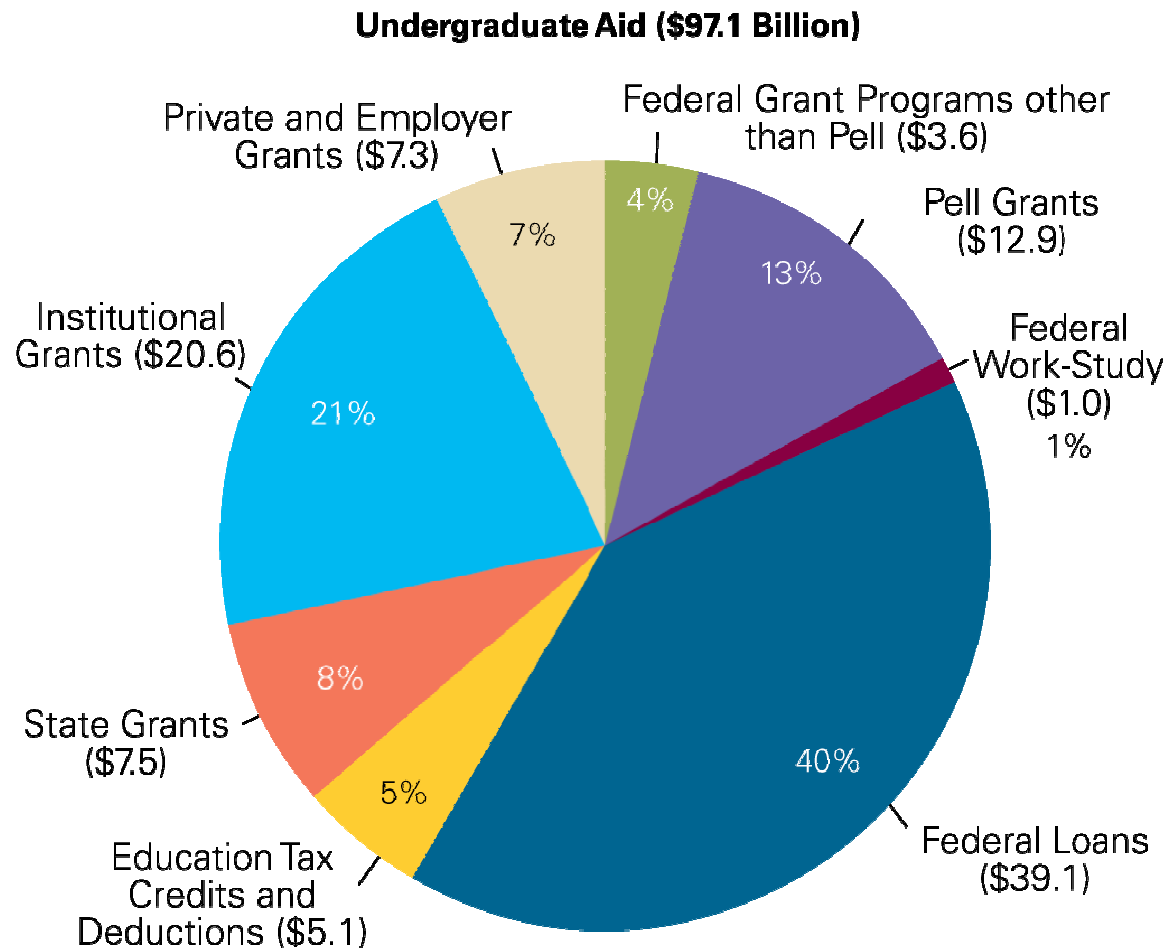
How Do We Meet the Continued Growth of Demand for Higher Education?

- Increased public expenditures
- Increased cost-sharing
 - Student loan programs
- Philanthropy
 - Possibilities for more effective giving
- University entrepreneurialism
- Bond issuances
 - Universities and student loans

Outline

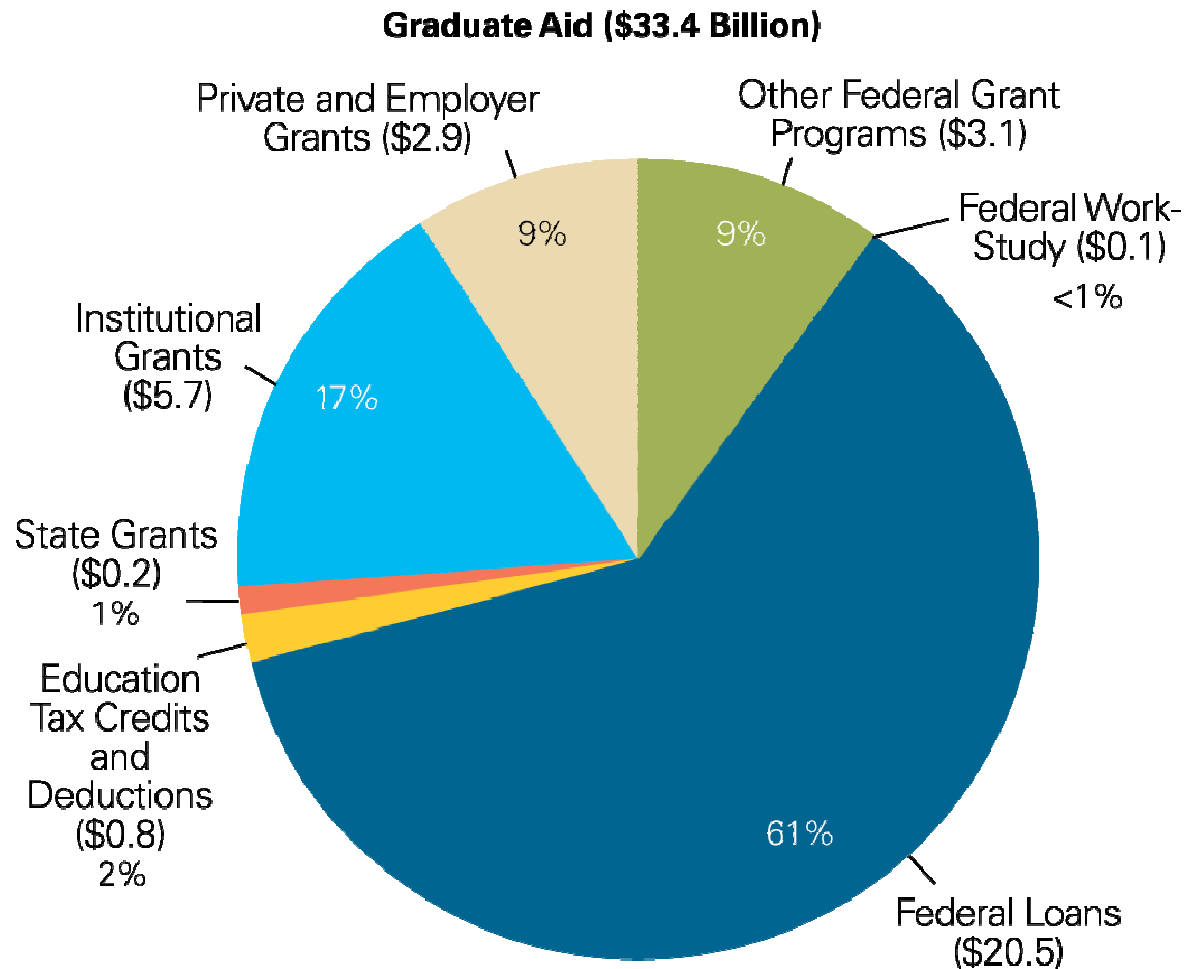
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Private Student Loans in Context



Private undergraduate loan volume in 2006-07 totaled \$14.5 billion, slightly greater than the total volume of Pell Grants awarded that year

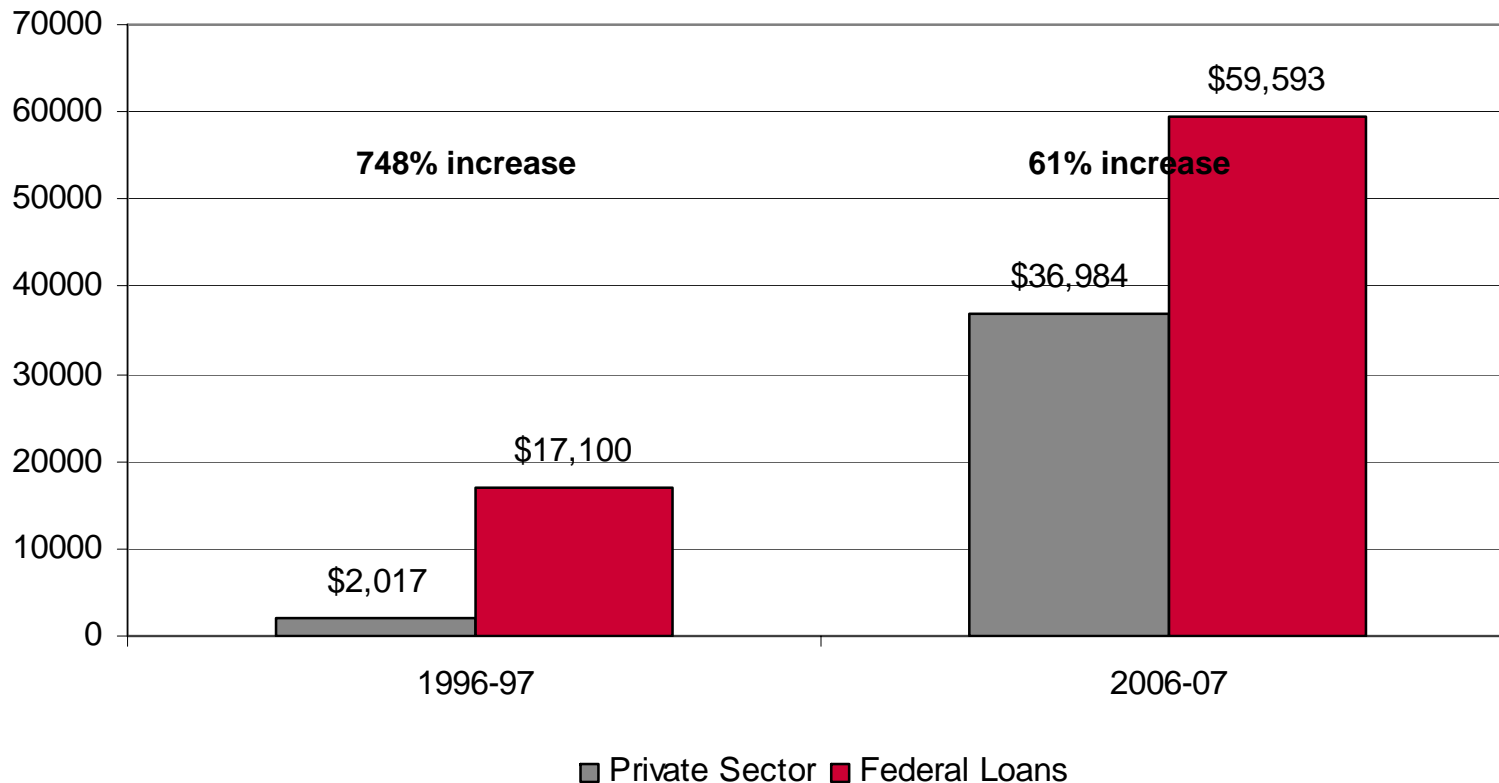
Private Student Loans in Context



Private graduate loan volume in 2006-07 totaled \$2.6 billion, similar in size to all private and employer grants awarded in that year

Private Student Loans in Context

Increase in private and federal student loan volume in constant (2006) dollars (in millions), 1996-97 and 2006-07



Private student loans witnessed a \$15 billion increase in volume in the last decade as federal student aid did not keep up with the rising costs of higher education

Who are Private Loan Borrowers?

❖ Undergraduate degree students (\$14.5 billion in private loans)

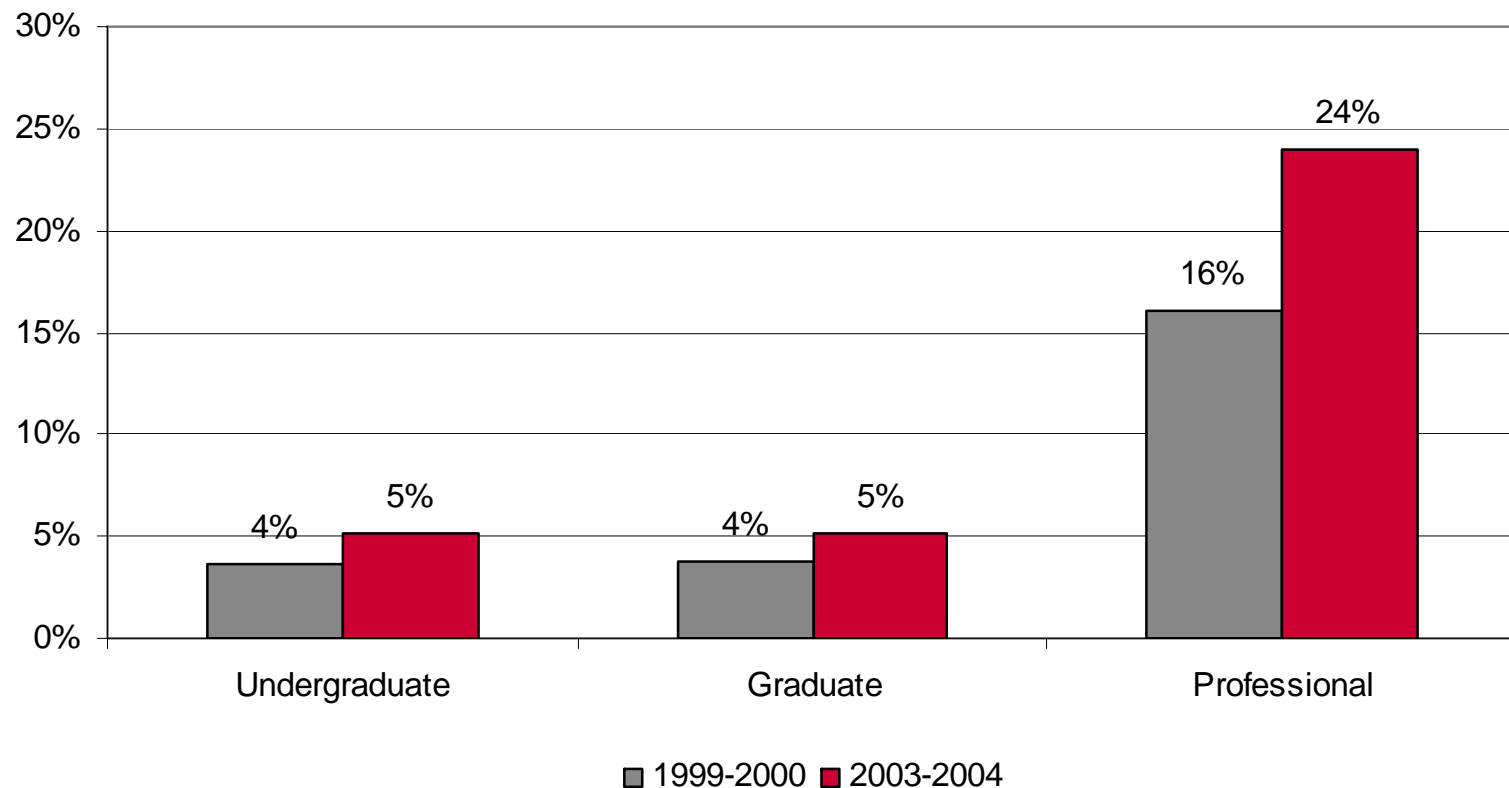
- **Dependent undergraduates:** “Traditional” aged college students ages 18-24, financially dependent upon parents or guardians
- **Independent undergraduates:** either 24 or older OR married, have legal dependents other than spouse, orphan or ward of the court, U.S. Armed Forces veteran

❖ Post-baccalaureate degree students (\$2.6 billion in private loans)

- **First-professional degree:** Post-baccalaureate students pursuing medical, law, dental or other professional degrees
- **Graduate degree:** Post-baccalaureate students pursuing master’s, doctoral, or other post-baccalaureate degree or certificate other than a first-professional degree

Percentage Borrowing Private Loans

Percentage of students borrowing private loans in 1999-2000 and 2003-2004, by student level



While professional students were much more likely to borrow private loans, undergraduate students made up 83 percent of all private borrowers in 2003-04

Why Are They Borrowing?

A student may take out a private loan:

- ❖ To afford enrollment at higher priced institutions
- ❖ To fill gaps of remaining need, especially if maxed out on federal loans
- ❖ To enroll full-time and work less while enrolled

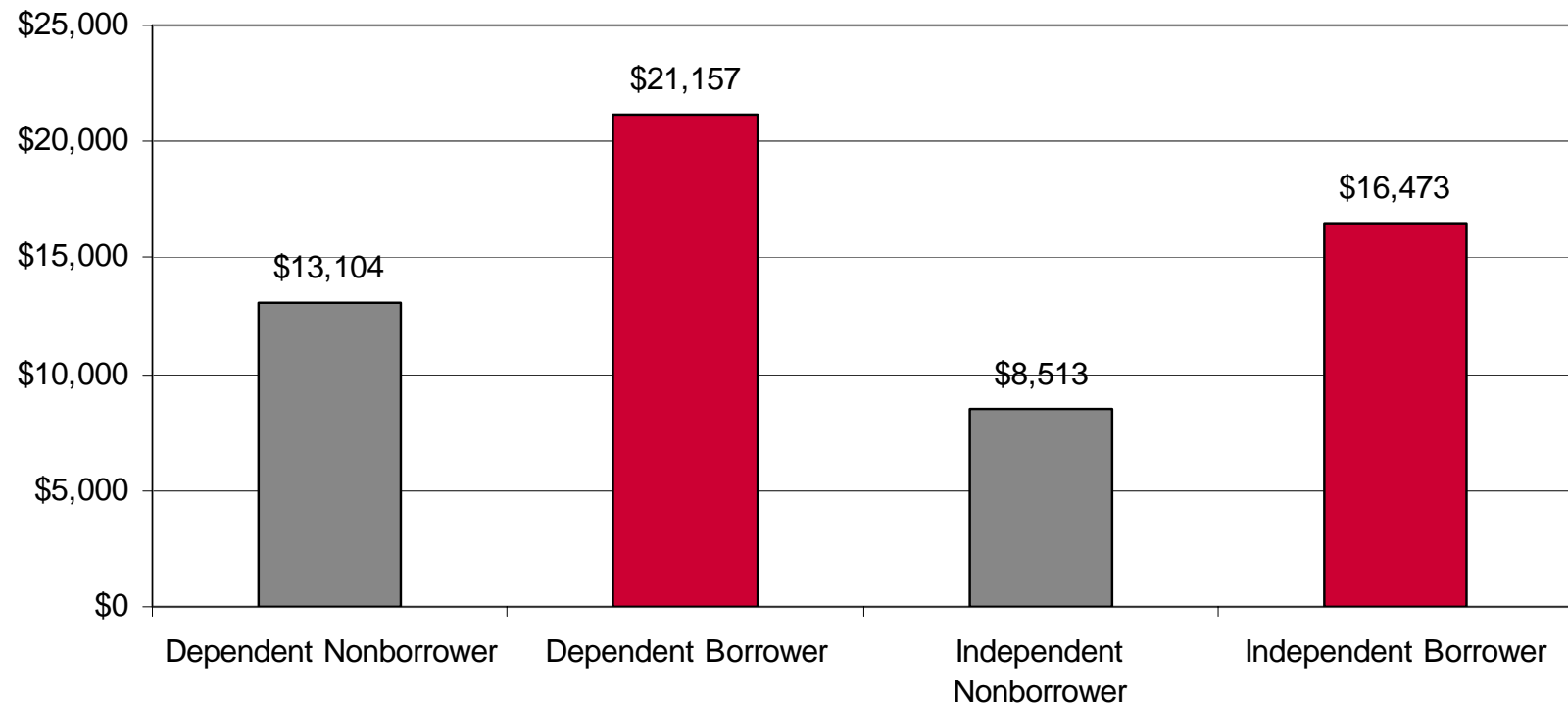
Dependent Undergraduates, 2003-04

Institution sector	Dependent private loan <i>borrowers</i>	Dependent private loan <i>non-borrowers</i>
Public 4-year	35%	40%
Private not-for-profit 4-year	37%	15%
Public 2-year	9%	33%
Private for-profit	10%	3%
Other/ attended more than one institution	9%	8%

Dependent private loan borrowers were much more likely to attend pricier private not-for-profit 4-year schools than non-borrowers

Price of Attendance

Average price of attendance for undergraduate students in 2003-04, by private loan borrower status and dependency



Both dependent and independent undergraduates who borrowed private loans faced substantially higher prices of attendance

Attendance Intensity, 2003-04

Attendance Intensity	Independent undergraduate private loan <i>borrowers</i>	Independent undergraduate private loan <i>non-borrowers</i>
Exclusively full-time	58%	33%
Exclusively half-time	17%	25%
Exclusively less than half-time	4%	23%
Mixed*	21%	20%

Private loans appear to enable independent undergraduate students to attend full-time

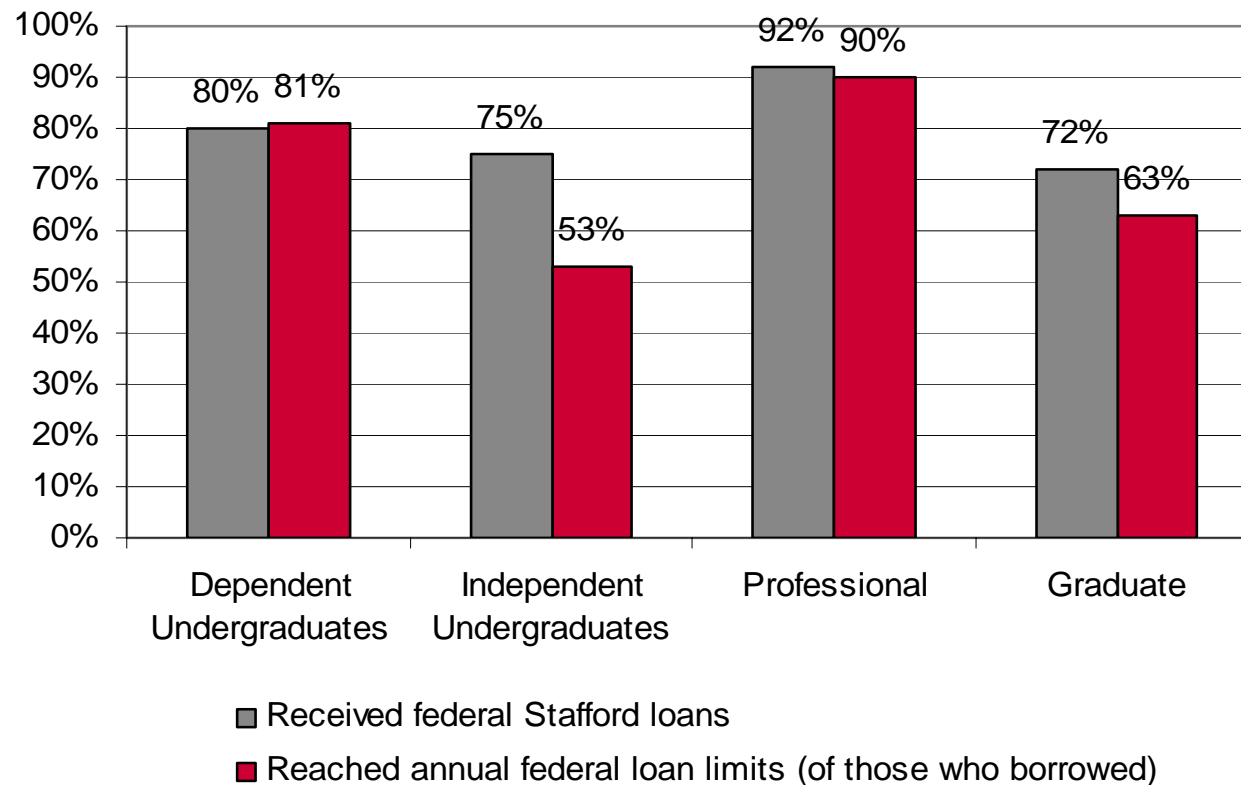
Work Intensity, 2003-04

Work Intensity	Graduate private loan <i>borrowers</i>	Graduate private loan <i>non-borrowers</i>
Full-time	34%	57%
Part-time	28%	22%
No job	37%	21%

Private loans also appear to enable graduate students to work less than non-borrowers

Federal Borrowing, 2003-04

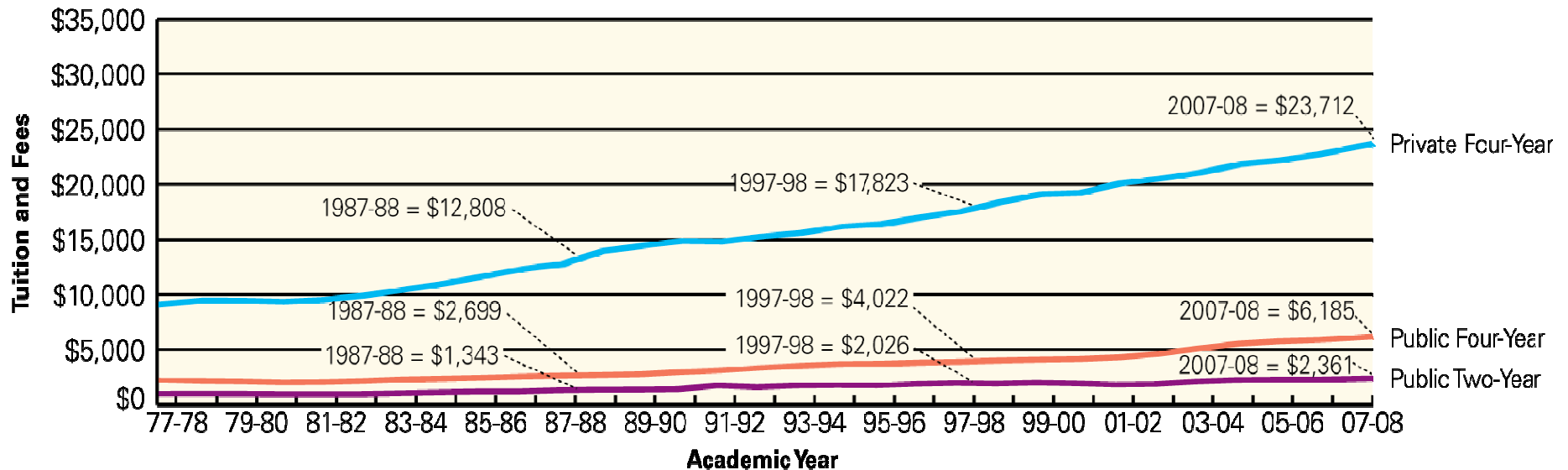
**Federal Borrowing Patterns of Private Loan Borrowers,
2003-04**



While a large majority of private loan borrowers also take out federal loans, there is still a substantial gap among some groups of students

Trends in Undergraduate College Prices

Average Published Tuition and Fees in Constant (2007) Dollars, (Enrollment-Weighted)



The growth in tuition and fees has shown no sign of moderating its upward trend despite legislative efforts to limit the rising costs of college

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Income-Contingent Loan Programs

- Students pay a percentage of their income until the loan is fully paid off
- Introduced with some success in the United Kingdom and Australia
- Can be modified to exempt graduates with low-incomes from payment

Human Capital Contracts

- Students pay a percentage of their income after graduation for a set number of years
- *Not* the same as an income-contingent loan program
- Currently offered by Lumni to a handful of students in Chile, Colombia, U.S., and Mexico

Risk Sharing with Non-Profits

- Non-profit can contribute funds to a reserve to cover potential defaults
- IFC has introduced such a program in Indonesia in cooperation with local banks and the Sampoerna Foundation
- Such an approach could be replicated in countries with no student loan track record

Microcredit

- Microcredit relies on social capital rather than collateral to ensure repayment
 - Lack of collateral is a key obstacle in issuing student loans
- Grameen Bank in Bangladesh has introduced a microcredit program for higher education
 - Available only to families that participate in other microcredit programs
- Limitation that given the administration costs, must rely on existing credit infrastructure

For more information:

- www.ihep.org/Research/gcpf.cfm
- Central repository of information on private financing strategies and tools
- Currently covers:
 - Securitization
 - Multilateral Institutions
 - Philanthropy
 - University-Industry Collaboration
 - Directory of Student Loan Programs